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No. 05-130

Supreme Court, U.S.
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In The

Supreme Court of the United States

EBAY, INC. AND HALF.COM., INC.,

Petitioners,

v.

MERCEXCHANGE, L.L.C.,

Respondent.

On Writ Of Certiorari To The United States Court Of Appeals For The Federal Circuit

BRIEF OF LAW PROFESSORS AS AMICUS CURIAE IN SUPPORT OF RESPONDENT

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TABLE OF CONTENTS

	Page
TABLE OF AUTHORITIES	iii
INTEREST OF AMICI	1
SUMMARY OF ARGUMENT	1
ARGUMENT	2
I. Patent Rights Are Conditional And Limited	2
A. Patents Represent A Bargain With The United States Government	2
B. Patents Are Subject To Many Legislative And Judicial Limitations	3
II. Precedent, Coupled With Evidence Of Legislative And Executive Choices, Counsels Against Ordinarily Obligating Patent Owners To License Other Than Through Arms-Length Bargaining	5
A. *Paper Bag* Held That Patent Holders' Obligations To Use Protected Inventions Is Principally For Congress To Determine	5
B. *Coe* Confirmed That The Consequences Of Nonuse Are Principally For Congress To Determine	7
C. *Dawson* Confirmed That Circumstances Warranting Compulsory Licenses Are Principally For Congress To Determine	8
D. Reluctant To Deter Innovation, The Executive Branch Is Unwilling To Circumvent Patents Despite Short-Term Need And Unambiguous Authority	9

TABLE OF CONTENTS – Continued

Page

III. The Decision Below Properly Rejected The District Court's Reasons For Denying Equitable Relief To MercExchange 11

A. The District Court Did Not Apply Proper Precedent 11

B. The Decision Below Applied The Correct Standard Of Review For Injunctions Despite Failure To Recite It Explicitly 13

CONCLUSION 14

TABLE OF AUTHORITIES

Page

CASES

Boomer v. Atlantic Cement Co., 26 N.Y.2d 219 (1970) 4

Bonito Boats, Inc. v. Thunder Craft Boats, Inc., 489 U.S. 141 (1989) 2

Brulotte v. Thys Co., 379 U.S. 29 (1964) 4

Citizens to Preserve Overton Park, Inc. v. Volpe, 401 U.S. 402 (1971) 13

City of Milwaukee v. Activated Sludge, Inc., 69 F.2d 577 (7th Cir. 1934) 4

College Savings Bank v. Florida Prepaid Educ. Expense Bd., 527 U.S. 627 (1999) 4

Continental Paper Bag Co. v. Eastern Paper Bag Co., 210 U.S. 405 (1908) 5, 6, 7, 11, 12

Dawson Chem. Co. v. Rohm and Haas Co., 448 U.S. 176 (1980) 8, 9

Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd., 535 U.S. 722 (2002) 3

Foster v. Am. Mach. & Foundry Co., 492 F.2d 1317 (2d Cir. 1974) 11, 12

Fromson v. Western Litho Plate and Supply Co., 853 F.2d 1568 (Fed. Cir. 1988) 10

Fuji Photo Film Co., Ltd. v. Jazz Photo Corp., 394 F.3d 1368 (Fed. Cir. 2005) 13

High Tech Med. Instrumentation, Inc. v. New Image Indus., Inc., 49 F.3d 1551 (Fed. Cir. 1995) 13, 14

Hybritech, Inc. v. Abbott Lab., 849 F.2d 1446 (Fed. Cir. 1988) 13

TABLE OF AUTHORITIES – Continued

Page

Jazz Photo Corp. v. Int'l Trade Comm'n, 264 F.3d 1094 (Fed. Cir. 2001) 13

Jazz Photo Corp. v. United States, 353 F.Supp.2d 1327 (Ct. Int'l Trade 2004) 13

Kelo v. City of New London, Connecticut, 125 S.Ct. 2655 (2005) 10

McPherson's Ltd. v. Never Dull, Inc., 960 F.2d 156 (Table), 1992 WL 52140 (Fed. Cir. 1992) 3

MercExchange, L.L.C. v. eBay Inc., 275 F.Supp.2d 695 (E.D. Va. 2003) 11, 12, 14

Morton Salt Co. v. G. S. Suppiger Co., 314 U.S. 488 (1942) 4

Pfaff v. Wells Elec., Inc., 525 U.S. 55 (1998) 2

Special Equip. Co. v. Coe, 324 U.S. 370 (1945) 7, 8

United States v. Am. Bell Teleph. Co., 167 U.S. 249 (1897) 5

United States v. Glaxo Group Ltd., 410 U.S. 52 (1973) 4

Vitamin Technologists, Inc. v. Wis. Alumni Research Found., 146 F.2d 941 (9th Cir. 1945) 4

Webber v. Virginia, 103 U.S. 344 (1880) 3

STATUTES AND RULES

U.S. Const., 11th Amendment 4

28 U.S.C. § 1338 3

28 U.S.C. § 1498 4

35 U.S.C. § 101 2

TABLE OF AUTHORITIES – Continued

Page

35 U.S.C. § 102 2

35 U.S.C. § 102(a) 3

35 U.S.C. § 103 2

35 U.S.C. § 112 2

35 U.S.C. § 154(a)(1) 3

35 U.S.C. § 203 3

35 U.S.C. § 209 3

35 U.S.C. § 271 ..... 3, 14

35 U.S.C. § 271(c) 8

35 U.S.C. § 283 11

42 U.S.C. § 7608 3

OTHER MATERIALS

Federal Trade Commission, To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy (2003) 10

House Democrats Press for Compulsory Licensing Authority, FDA Week, Nov. 11, 2005, 2005 WLNR 18263219 10

Douglas Laycock, Modern American Remedies, 445 (3d Ed. 2002) 14

Erika Mullenbach, *The Influence of Disease on the Evolution of U.S. Patent Law and Policy Towards Foreign Patent Laws in the Late Twentieth to Early Twenty-First Century,* 7 Tul. J. Tech. & Intell. Prop. 227, 239-41 (2005) 9

INTEREST OF AMICI

Amici's sole interest in this case is the proper development and application of patent law to promote innovation and competition.[1] Amici teach and write about patent law; all also have patent law experience. This brief is submitted to provide the Court with scholarly assistance informed by experience.

SUMMARY OF ARGUMENT

Inventors lacking assurance of a market, or even the right to practice patented inventions, face considerable risk. Those who qualify for patents, in return for disclosure, receive only the assistance of the courts in excluding others from economic exploitation of their inventions. Already subject to many legislative and judicial limitations, patents should not be further subject to the functional equivalent of private inverse condemnation without congressional action.

Precedents of this Court hold that patentees forfeit no rights for nonuse as such and that private parties are not ordinarily free to practice protected inventions upon payment of a judicially-determined royalty. Indeed, in rare instances where Congress authorizes public taking, the executive branch hesitates for fear of deterring socially and economically important innovation.

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[1] Pursuant to Sup. Ct. R. 37.6, the amici represent that they have authored this brief in whole; no person or entity other than Franklin Pierce Law Center has made any monetary contribution to its preparation or submission. On December 10, 2005, counsel for the respective parties consented by email to the filing of this brief.

The trial court accepted arguments analogous, given the apparent economic disparity between the parties, to ones Goliath might have made in asking that David be disarmed. It failed to cite the most relevant precedent when refusing an injunction to a party actively seeking to exploit its patents. Nor did the trial court identify a public interest that might, despite precedent, warrant such refusal.

An appellate court does not overreach in reversing decisions unsupported by facts, law or sound reasons. Failure to recite that proposition does not warrant reversal of the decision below.

ARGUMENT

I. Patent Rights Are Conditional And Limited.

A. Patents Represent A Bargain With The United States Government.

To obtain patents, applicants must satisfy the U.S. Patent and Trademark Office (PTO) that inventions for which protection is sought are useful, novel and nonobvious. 35 U.S.C.A. §§ 101, 102 (2001) and 103 (Supp. 2005). Applicants must also disclose the best mode of practicing their inventions so that others may practice them upon expiration of their patents. 35 U.S.C.A. § 112 (2001).

Utility, novelty and nonobviousness are conditions for patent grants, but disclosure is the applicants' quid pro quo for a "carefully crafted bargain." *Bonito Boats, Inc. v. Thunder Craft Boats, Inc.*, 489 U.S. 141, 150-51 (1989); *Pfaff v. Wells Electronics, Inc.*, 525 U.S. 55, 63 (1998). In return, owners are normally entitled to the aid of federal

courts in excluding others from, e.g., making, using or selling subject matter described in allowed claims. 35 U.S.C.A. §§ 154(a)(1), 271 (2001); 28 U.S.C.A. § 1338 (Supp. 2005).

B. Patents Are Subject To Many Legislative And Judicial Limitations.

First, patent owners are permitted to *do* nothing, *Webber v. Virginia*, 103 U.S. 344, 347-48 (1880), except exclude others from practicing inventions encompassed literally, or, rarely, by equivalence, *Festo Corp. v. Shoketsu Kinzoku Kogyo Kabushiki Co., Ltd.*, 535 U.S. 722, 726 (2002), within the scope of claims negotiated with the PTO.

Second, patentees are strictly liable for information available when claimed inventions were made. Rights are subject to loss regardless of whether applicants were, or reasonably could have been, expected to know of applicable prior art. 35 U.S.C.A. § 102(a) (includes foreign publications). A priori, applicants unaware of the market for inventions have less incentive to scour the literature for potentially fatal art than infringers subsequently aware of the stakes.

Third, applicants' lack of candor during PTO examination may render otherwise valid rights unenforceable. *McPherson's Ltd. v. Never Dull, Inc.*, 960 F.2d 156 (Table), 1992 WL 52140 (Fed. Cir. 1992).

Fourth, patents, when granted, may be subject to statutory compulsory licenses. *See, e.g.*, 42 U.S.C.A. § 7608 (2003) (Clean Air Act) and 35 U.S.C.A. § 203 (Supp. 2005) (federally-funded inventions); *see also*, 35 U.S.C.A. § 209

(2001 & Supp. 2005) (termination of exclusive license on federally-owned inventions).

Fifth, patent misuse may result in forfeiture of *all* rights. *Morton Salt Co. v. G. S. Suppiger Co.*, 314 U.S. 488 (1942) (conditioning patent use on purchase of unpatented supplies); *Brulotte v. Thys Co.*, 379 U.S. 29 (1964) (conditioning use on agreement to pay royalties beyond patent term). In apparently less egregious circumstances, patentees may be obligated only to license others. *United States v. Glaxo Group Ltd.*, 410 U.S. 52, 59 (1973) (compulsory licensing is a "well established form[] of relief when necessary to an effective remedy, particularly where patents have provided the leverage for or have contributed to the antitrust violation adjudicated.").

Sixth, patents are subject to *public* inverse condemnation. 28 U.S.C.A. § 1498 (Supp. 2005) (limits relief against the federal government to suits for damages in the U.S. Court of Federal Claims); *see also College Savings Bank v. Florida Prepaid Educational Expense Bd.*, 527 U.S. 627 (1999) (federal suits against states based on the Patent Act are barred by the 11th Amendment).

Last, patentees have also, if rarely, been subject to private inverse condemnation.[2] *City of Milwaukee v. Activated Sludge, Inc.*, 69 F.2d 577, 593 (7th Cir. 1934) (court refused to shut down an infringing city-owned waste treatment plant); *Cf. Boomer v. Atlantic Cement Co.*, 26

[2] *Vitamin Technologists, Inc. v. Wis. Alumni Research Found.*, 146 F.2d 941 (9th Cir. 1945) is oft cited for the same proposition, but, at 146 F.2d 946-47, the opinion states: "Since our consideration of the record convinces us that the patents are invalid, we have concluded that equity will best be served by disposing of the case on that ground." Moreover, patentee was faulted for egregious misconduct, 146 F.2d 946.

N.Y.2d 219, 225 n.*, 228 (App. Div. 1970) (a $45 million cement plant employing 300 people was found to be a nuisance, but the court awarded permanent damages, thereby imposing a servitude on plaintiffs' land).

II. Precedent, Coupled With Evidence Of Legislative And Executive Choices, Counsels Against Ordinarily Obligating Patent Owners To License Other Than Through Arms-Length Bargaining.

A. *Paper Bag* Held That Patent Holders' Obligations To Use Protected Inventions Is Principally For Congress To Determine.

Defendant, in *Continental Paper Bag Co. v. Eastern Paper Bag Co.*, 210 U.S. 405 (1908), argued that plaintiff's unexplained nonuse of patented technology warranted denial of an injunction. Before addressing that question however, the Court chose first to consider the rights conferred, 210 U.S. at 423. On that point, the opinion quotes *United States v. American Bell Telephone Co.*, 167 U.S. 249, 250 (1897), where the Court had rejected a similar argument:

> Counsel seem to argue that one who has made an invention and thereupon applies for a patent therefor occupies, as it were, the position of a quasi trustee for the public; that he is under a sort of moral obligation to see that the public acquires the right to the free use of that invention as soon as is conveniently possible. We dissent entirely from the thought thus urged. The inventor is one who has discovered something of value. It is his absolute property. He may withhold the knowledge of it from the public, and he may insist upon all the advantages and benefits which

> the statute promises to him who discloses to the public his invention.

Paper Bag, 210 U.S. at 424.

Although the circuit court had apparently inferred an improper motive from the patentee's nonuse, the Court wrote:

> [I]t is certainly disputable that the nonuse was unreasonable. . . . There was no question of a diminished supply of or increase of prices, and can it be said, as a matter of law, that a nonuse was unreasonable which had for its motive the saving of the expense that would have been involved by changing the equipment of a factory from one set of machines to another? And even if the old machines could have been altered, the expense would have been considerable.

Id. at 429. The Court thus held:

> As to the suggestion that competitors were excluded from the use of the new patent, we answer that such exclusion may be said to have been of the very essence of the right conferred by the patent, as it is the privilege of any owner of property to use or not use it, without question of motive.

Id.

That decision was largely predicated on deference to evidence of congressional choices. The Court pointed out that Congress had not overlooked patentees' nonuse. It had been aware of hostility toward nonuse abroad and, indeed, had briefly imposed forfeiture for aliens' nonuse. But Congress no longer required use by alien, much less domestic, patentees. Although the opinion ends with

recognition that "a court of equity might be justified in withholding relief by injunction," 210 U.S. at 429, it does not elaborate.

B. *Coe* Confirmed That The Consequences Of Nonuse Are Principally For Congress To Determine.

In *Special Equipment Co. v. Coe*, 324 U.S. 370 (1945), the court of appeals had upheld a refusal to grant a patent "upon the ground that petitioner did not intend to make or use the invention. . . . " *Id.* at 371. The Court reversed, however, stating: "[T]he court below assumed that such purpose . . . would invalidate the patent because it would be contrary to the constitutional purpose and to the spirit if not the letter of the patent laws. We think both assumptions are unwarranted." *Id.* at 377.

The Court went on to say: "This Court has consistently held that failure of the patentee to make use of a patented invention does not affect the validity of the patent." *Id.* at 378-79. Once again, it observed: "Congress has frequently been asked to change the policy of the statutes as interpreted by this Court by imposing a forfeiture or providing for compulsory licensing if the patent is not used within a specified time, but has not done so." *Id.* at 379 (notes omitted). Yet, the opinion further states: "The record establishes no intention by petitioner not to use his invention, and no proposed use of it disclosed or suggested by the record affords any basis for withholding the grant of the patent." *Id.* at 380.

Justice Douglas, joined by two others, urged that the patent legislation interpreted in light of the Constitution supported an obligation to use. *Id.* at 380 (Douglas, J.,

dissenting). His opinion cites a 1941 report for the proposition that nonuse and related "maneuvers retard, rather than promote, the progress of the useful arts." *Id.* at 382. He went on to consider "an invention or discovery which unlocks the doors of science and reveals the secrets of a dread disease. Is it possible that a patentee could be permitted to suppress that invention for seventeen years (the term of the letters patent) and withhold from humanity the benefits of the cure?" *Id.* at 383. As addressed above, however, that hypothetical outcome is not only unlikely,[3] but also has no bearing on the present case.[4]

C. *Dawson* Confirmed That Circumstances Warranting Compulsory Licenses Are Principally For Congress To Determine.

Whereas *Coe* considered nonuse but not compulsory licensing, *Dawson Chemical Co. v. Rohm and Haas Co.*, 448 U.S. 176 (1980), considered the converse situation. Rohm and Haas was indeed using its patent – one that claimed the sole known use of an unclaimed product. Because the doctrine of contributory infringement reflected in 35 U.S.C. § 271(c) precluded Dawson from using an unpatented product, it argued that a license should be compelled. The Court disagreed. Once again reflecting deference to Congress, the opinion states: "Compulsory

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[3] *See supra* note 2.

[4] Justice Rutledge, however, maintained that the record did not support a need to address "the interesting and important questions debated by the Court's opinion and my dissenting brethren." *Coe*, 324 U.S. at 384 (Rutledge, J., dissenting). The rejected claims might well have encompassed terrain captured within the doctrine of equivalents, but he would have affirmed the administrative conclusion that the proffered claims were not literally supported by the specification.

licensing is a rarity in our patent system, and we decline to manufacture such a requirement," *id.* at 215.

Most significantly in the context of the present dispute, note 21, appended to the just-quoted language, states: "Compulsory licensing of patents often has been proposed, but it has never been enacted on a broad scale. Although compulsory licensing provisions were considered for possible incorporation into the 1952 revision of the patent laws, they were dropped before the final bill was circulated." *Id.*, n.21.

D. Reluctant To Deter Innovation, The Executive Branch Is Unwilling To Circumvent Patents Despite Short-Term Need And Unambiguous Authority.

Nonuse is akin to suboptimal use of patents. In 2001, following the anthrax scare, the Bush Administration threatened to compromise exclusivity for the drug Cipro when it appeared more would be needed than Bayer could produce.[5] Threats apparently were adequate to address public health concerns, but they generated unintended consequences insofar as other countries had been previously lobbied to reduce or eliminate compulsory licensing.[6] Perhaps as a result, the Bush Administration is now

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[5] *See, e.g.*, Erika Mullenbach, *The Influence of Disease on the Evolution of U.S. Patent Law and Policy Towards Foreign Patent Laws in the Late Twentieth to Early Twenty-First Century*, 7 TUL. J. TECH. & INTELL. PROP. 227, 239-41 (2005).

[6] *Id.* at 232.

apparently reluctant, despite considerable pressure, to compel Roche to license Tamiflu.[7]

The reason, of course, is that the Administration is subject to even more counter pressure. One might think that firms holding exclusive rights, if assured of a reasonable return on investment, would be little affected by having others help meet public needs, but that is not true. The reasons are complex and go well beyond the objections expressed by the petitioners (and the dissenters) in *Kelo v. City of New London, Connecticut,* 125 S.Ct. 2655 (2005).

For example, in *Fromson v. Western Litho Plate and Supply Co.,* 853 F.2d 1568, 1574 (Fed. Cir. 1988), Judge Markey wrote: "Determining a fair and reasonable royalty is often . . . a difficult judicial chore, seeming often to involve more the talents of a conjurer than those of a judge." Risk of error is unavoidable for prior infringement, but injunctions eliminate it for future infringement.

Thus, the Federal Trade Commission, in *To Promote Innovation: The Proper Balance of Competition and Patent Law and Policy* (2003), recently noted, e.g., Ch. 2 at 32 and Ch. 3 at 38, concern about non-practicing entities. The FTC did not recommend a solution and certainly did not recommend that all non-practicing patentees be limited to only legal remedies, much less regardless of pursuit of arms-length licenses. Had it done so, however, surely its recommendation would have been addressed to Congress, not the courts.

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[7] *See, e.g., House Democrats Press for Compulsory Licensing Authority,* FDA WEEK, Nov. 11, 2005, 2005 WLNR 18263219.

III. The Decision Below Properly Rejected The District Court's Reasons For Denying Equitable Relief To MercExchange.

A. The District Court Did Not Apply Proper Precedent.

In *MercExchange, L.L.C. v. eBay Inc.*, 275 F.Supp.2d 695 (E.D. Va. 2003), a jury returned a verdict finding defendants liable for $35 million for willfully infringing MercExchange's patents. *Id.* at 698. After referring to the court's authority to issue injunctions under 35 U.S.C. § 283, the court states: "[T]he grant of injunctive relief against the infringer is considered the norm; however, the decision to grant or deny injunctive relief remains within the discretion of the trial judge." *Id.* at 711. It also notes the four factors that have traditionally informed courts' discretion before explaining their applicability in this case. *Id.*

Yet, in ultimately refusing injunctive relief, that court failed to cite, much less distinguish, *Paper Bag*. Its failure is remarkable because, in explaining why plaintiff is not irreparably harmed, the opinion stresses that "plaintiff does not practice its inventions and exists merely to license its patented technology to others." *Id.* at 712.

Rather, the trial court relied heavily on *Foster v. American Machine & Foundry Co.*, 492 F.2d 1317 (2d Cir. 1974) in limiting MercExchange to its legal remedy. *eBay*, 275 F.Supp.2d at 713. *Foster*, too, failed to cite *Paper Bag* in concluding: "To grant [the patentee] a compulsory royalty is to give him half a loaf. In the circumstance of his utter failure to exploit the patent on his own, that seems fair." *Foster*, 492 F.2d at 1324. That is difficult to fathom when that language squarely addresses the central issue

in *Paper Bag*. In any event, it is starkly at odds with the holding of the most relevant precedent.

The district court also relied principally on *Foster* with regard to the balance of hardships when it wrote: "Any harm suffered by the plaintiff, by the defendants' infringement of the patents, can be recovered by way of damages." *eBay*, 275 F.Supp.2d at 714. Thus, three of the factors relevant to equitable relief seem ultimately to have collapsed into one.

With regard to public interest, the fourth factor, the district court did not suggest that MercExchange had misused its patents or that its right to injunctive relief was otherwise compromised by anything discussed above.[8] Nor does its opinion suggest that MercExchange should be subject to the functional equivalent of private inverse condemnation to reduce or avoid serious public health risks.

On the contrary, the court concluded: "[T]he public interest factor equally supports granting an injunction to protect the plaintiff's patent rights, and denying an injunction to protect the public's interest in using a patented business-method that the patent holder declines to practice." *Id.* at 714. Its explanation credits the importance of injunctions in encouraging activities supported by patent grants but again relies on patentee's nonuse. Moreover, with no credible support, that explanation suggests that owners of so-far unlicensed business-method patents would never be entitled to injunctions. *Id.* at 713.

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[8] *Supra* Part I.B.

That qualifies more as a legislative judgment than as an ad hoc exercise of equitable discretion.

B. The Decision Below Applied The Correct Standard Of Review For Injunctions Despite Failure To Recite It Explicitly.

In *Citizens to Preserve Overton Park, Inc. v. Volpe,* 401 U.S. 402, 416 (1971), the Court held that the standard of review for abuse of discretion is narrow, but that decisions, to be upheld, must be based on a consideration of relevant factors and not evidence a clear error of judgment. Many decisions show that the Federal Circuit applies this standard correctly.

Thus, *Hybritech, Inc. v. Abbott Laboratories,* 849 F.2d 1446, 1458 (Fed. Cir. 1988), upheld denial, on public interest grounds, of a preliminary patent injunction against potentially infringing hepatitis and cancer test kits. Likewise, *High Tech Medical Instrumentation, Inc. v. New Image Industries, Inc.,* 49 F.3d 1551, 1556 (Fed. Cir. 1995), upheld denial of a preliminary patent injunction based on, for example, delay and weak evidence of likely success on the merits, particularly absent evidence of harm pendente lite. Most recently, the court, in *Fuji Photo Film Co., Ltd. v. Jazz Photo Corp.,* 394 F.3d 1368, 1380 (Fed. Cir. 2005), upheld denial of a permanent patent injunction subsumed by relief already provided in a related proceeding before the International Trade Commission.[9]

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[9] *Jazz Photo Corp. v. U.S.*, 353 F.Supp.2d 1327 (Ct. Int'l Trade 2004); *see also Jazz Photo Corp. v. Int'l Trade Comm'n*, 264 F.3d 1094,

(Continued on following page)

In the case on review, however, as discussed above, the trial court ignored the most relevant precedent and, sua sponte, applied a rule prejudicial to a whole class of patent owners. *eBay*, 275 F.Supp.2d at 713. It also applied *High Tech Med. Instrumentation* without considering critical differences between withholding preliminary and permanent relief,[10] or factoring in that the jury found that eBay had not only infringed but had done so willfully. *Id.* at 712. In such circumstances, reversal, even under the abuse of discretion standard, should not require protracted formal discussion.

CONCLUSION

Absent congressional action, owners should be further obligated neither to use nor to permit other private parties to engage in activities forbidden by 35 U.S.C. § 271. For that and other foregoing reasons, the judgment below should be affirmed.

Respectfully submitted,

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1110-11 (Fed. Cir. 2001) (disapproving ITC's exclusion of refurbished cameras originally purchased in the United States).

[10] *See, e.g.*, DOUGLAS LAYCOCK, MODERN AMERICAN REMEDIES, 445 (3d Ed. 2002) ("Courts at the preliminary relief stage routinely find no irreparable injury in injuries they would find irreparable after a full trial.").